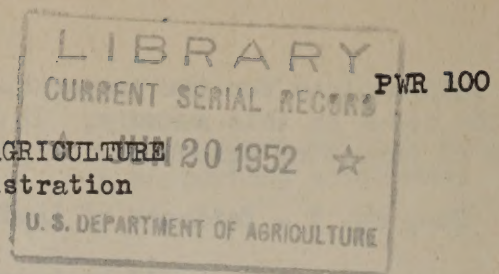


1.933
P872
copy 2

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington 25, D. C.



May 2, 1952

Power Memorandum 100

Subject: Operating Budgets

Good business management is a responsibility of the borrower as owner and manager of a power system. The operating budget is a basic tool of such business management. Preparation of an operating budget and its use will serve as an aid in managing the system's business affairs. The budget contains the guide lines for management to follow in fulfilling its obligations; the borrower should operate within the scope of this master plan. It provides the standards whereby those responsible for carrying out the program can analyze performance and accomplishment. It is also a means for management to inform the board of directors and REA of the plans of operation. The approved budget authorizes management to proceed with these plans.

In addition, the operating budget contains information which may be used in determining the rate to be charged to its members. Most of the power contracts provide that the power borrower shall review the rate annually, and if necessary, shall revise the rates.

It is recommended that the budget be prepared during the last quarter of the year on both a "book basis" and a "cash basis" in time to have it submitted to and acted upon by the board of directors and REA before the end of the year. For the purpose of these instructions "book basis" includes operating expenses, depreciation, amortization of intangibles, acquisition adjustments, taxes, interest on long term debt less interest charged to construction, and other income deductions, "cash basis" includes operating expenses, taxes, principal and interest due and payable, and allowances for replacement and other reserves. Various methods may be used in preparing an operating budget. However, it should be prepared in such a manner that it can be readily used in the preparation of the Monthly Operating Report. It is therefore suggested that the composition and nomenclature of the budget follow that of the Monthly Operating Report.

The preparation of a budget consists of making detailed estimates of revenues and expenses. This is best accomplished by making separate supporting schedules of the various items. A summary of the schedules then becomes the consolidated budget. This summary should be arranged as outlined in Step 5 below. Most of the items in this summary are identical with those on Schedules C and D of the Operating Report (Form ADM 39A and ADM 39B).

The instructions for the preparation of the Operating Report are applicable to the items in this summary. It is suggested that the following steps be used in preparing schedules:

Step No. 1 - Estimate of Loads.

Load estimates should be based on the records of past requirements, plus allowances for load growth on existing services, additional loads from new connections on the member's systems and any new member consumers that might be added during the year. Several power borrowers have found it beneficial to request load estimates from their members as an assistance in preparing data.

Due to seasonal variations, the estimates should be prepared on a monthly basis in order to calculate the monthly revenues and expenses. The loads (demand and energy requirements) at each substation or metering point should be estimated so that loads by areas can be determined. Separate schedules should be prepared for the demand and energy requirements and should contain the following data:

- a. Substation or metering point arranged by consumers.
- b. Requirements by month.
- c. Monthly totals of requirements.

Step No. 2 - Estimates of Revenues.

This estimate is obtained from the schedules of demand and energy requirements and the rate structure. If the borrower normally has a source of non-operating revenue, details should be shown on the revenue schedule.

Step No. 3 - Estimate of Energy Generated, Purchased, or Interchanged.

After the demand and energy requirements at the consumer substations have been determined, it becomes necessary to plan for the supply of these requirements. If a number of plants or purchased power points are involved a detailed engineering study to best utilize the sources available is required.

There are many variables which must be considered in making this engineering study, such as, location of loads, capacity of facilities, production costs, termination of contracts, plant efficiencies, and construction and operation programs.

A schedule of monthly loading at the various supply points should be prepared as the basis for estimating the cost of fuel and purchased power.

Step 4 - Estimate of Costs.

The estimated cost of delivering power to the consumers may now be determined. The following items should have supporting schedules, giving complete detail:

A. Production Expenses:

1. Labor.

This estimate should be based on a tabulation of all employees showing the salary breakdown between operation and maintenance by generating plants. Care should be exercised not to include any labor chargeable to construction. Overtime, pay increases or any other item which might affect labor costs should be taken into consideration and any allowances made should be indicated on the schedule.

2. Fuel.

Fuel (and lubricants for internal combustion plants) should be estimated on the basis of the load including line loss assigned to each plant. Allowances should be made for station use when estimating fuel requirements. Complete detail of all calculations used in determining the quantity and price of fuel should be included in the schedule.

3. Station Supplies and Expenses.

Generally, these costs remain fairly constant and should be based on the previous year's experience with provisions being made for any known factors which might increase or decrease the previous year's record.

4. Maintenance.

Maintenance labor should be obtained from the tabulation of labor previously discussed under Item A1. Material should be estimated on the basis of previous years' experience with consideration given for any change in maintenance that is anticipated for the year covered by the budget, or the estimate may be made on experience figures of the industry in general.

5. Purchased Power.

If part of the energy requirements are to be purchased by the borrower, a schedule of these purchases should be prepared showing the demands, energy and total costs involved. This schedule should also show the rates, schedules, and suppliers when more than one supplier is to furnish power.

B. Transmission Expense:

1. Labor.

This estimate should be based on a tabulation of all employees engaged in transmission work, exclusive of construction. The breakdown should be the same as that for production expense. (See Item A 1 for details.)

2. Materials.

This estimate should also be made on the basis of the previous year's experience for both operation and maintenance materials. Consideration should be given for any items which may tend to change the costs. Usually it is practical to estimate material requirements for lines on the basis of miles and for substations on the basis of KVA. If the transmission system of the power borrower is relatively new, maintenance expense is at a minimum. Consideration should be given to the normal increase in expense as the system grows older when making estimates of the total requirements.

C. Administrative and General Expense.

Estimate for these expenses should be based on the previous year's experience with allowances being made for known factors. Individual schedules should be prepared for each of the expenses showing the contributing factors and amounts involved.

D. Depreciation.

This item should be supported by a schedule showing the type of plant, amount of investment, and rate of depreciation. This information should be obtained from the depreciation registers. Allowances should be made for any new items of capitalized plant which will be added to or removed from the system during the year.

E. Taxes.

This item should be supported by a schedule giving complete

details of the various taxes which are being provided for. This schedule should provide data on both a book and cash basis. It should include all of the taxes which are included under taxes in the Operating Report (ADM 39 A Schedule C Line 5).

F. Interest.

Estimates for interest should be based on the debt service schedule and it is not necessary to include a separate schedule with the budget. If the debt service schedule has not been prepared, it will be necessary to make an independent calculation of the interest. Interest chargeable to construction during the period covered by the budget should be deducted from the total interest expense to determine the net expense for the year. Complete details of all calculations should be included in the budget.

G. Debt Service Requirements.

This information is obtainable from the debt service schedule. If the debt service schedule has not been prepared, it will be necessary to make independent calculations. Complete details of the calculations should be included in the budget.

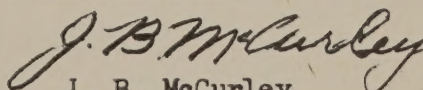
H. Replacement Reserve.

Estimates for this item should be based on past experience of the borrower, or the industry in general. Complete detail of the estimate showing the basis for all calculations should be included in the supporting schedule. This item is included only in the "Cash Basis" portion of the budget which is used primarily to determine the amount of actual cash needed to operate the system.

Step No. 5 - Consolidated Budget.

The Consolidated Budget should be prepared as outlined on the attached sample after the detailed schedules for the various estimates have been completed. Several of the items do not require supporting schedules. These items should be estimated as reasonably as possible with consideration given to past experience plus allowances for any changes. This sample is designed in a manner that will permit ready use in the preparation of the Operating Report and facilitate comparison with actual cost figures as recorded on the books. The corresponding line numbers Schedules C and D of the Operating Reports are shown in parenthesis as prefixes as an aid in identifying the item. These prefixes need not be included when preparing the Consolidated Budget. The various "steps" referred to correspond with the steps of these instructions.

Attachment


J. B. McCurley
Chief, Power Division

OPERATING BUDGET FOR 19____

SAMPLE ONLY

NAME OF BORROWER _____

ENERGY TO BE DELIVERED (In KWH): _____

DEMAND TO BE BILLED (In KW): _____

ITEM	DETAILS ON SCHEDULE	TOTAL
REVENUES.		\$ _____
PRODUCTION EXPENSE		
STEAM PRODUCTION		
OPERATION - SUPERVISION, ENGINEERING, & LABOR	\$ _____	
FUEL	_____	
WATER SUPPLIES & EXPENSES.	_____	
MAINTENANCE.	_____	
MISCELLANEOUS.	_____	
Total Steam Production Expense	\$ _____	
HYDRAULIC PRODUCTION		
OPERATION - SUPERVISION, ENGINEERING, & LABOR	\$ _____	
SUPPLIES & EXPENSES.	_____	
MAINTENANCE	_____	
MISCELLANEOUS	_____	
Total Hydraulic Production Expense	\$ _____	
INTERNAL COMBUSTION PRODUCTION		
OPERATION - SUPERVISION, ENGINEERING, & LABOR	\$ _____	
FUEL	_____	
LUBRICANTS	_____	
OTHER SUPPLIES & EXPENSES.	_____	
MAINTENANCE.	_____	
MISCELLANEOUS.	_____	
Total Internal Combustion Prod. Expense.	\$ _____	
OTHER PRODUCTION EXPENSE		
PURCHASED POWER.	\$ _____	
INTERCHANGE POWER-IN	_____	
OTHER PRODUCTION EXPENSE	_____	
Total Other Production Expense	\$ _____	
TOTAL PRODUCTION EXPENSE.	\$ _____	

TRANSMISSION EXPENSE

OPERATION - SUPERVISION, ENGR. & LOAD DISP.	\$ _____
SUBSTATIONS.	_____
LINES.	_____
MAINTENANCE-SUPERVISION ENGINEERING	_____
STRUCTURES & STATION EQUIPMENT	_____
LINES, ROADS & TRAILS.	_____
MISCELLANEOUS - RENTS, ETC.	_____
Total Transmission Expense	\$ _____

DISTRIBUTION EXPENSE

OPERATION.	\$ _____
MAINTENANCE.	_____
MISCELLANEOUS.	_____
Total Distribution Expense	\$ _____

ADMINISTRATIVE AND GENERAL EXPENSE

CONSUMER'S ACCOUNTING & COLLECTING	\$ _____
GENERAL OFFICE SALARIES, SUPPLIES & EXPENSES	_____
SPECIAL SERVICES, REGULATORY EXPENSE	_____
INSURANCE, INJURIES & DAMAGE	_____
DIRECTORS' FEES & MILEAGE.	_____
DUES TO ASSOCIATION, ORGANIZATION, DONATIONS	_____
MAINTENANCE OF GENERAL PROPERTY, RENTS, ETC.	_____
MISCELLANEOUS GENERAL EXPENSES	_____
Total Administrative & General Expense	\$ _____

OTHER COSTS

DEPRECIATION	\$ _____
TAXES.	_____
INTEREST EXPENSE	_____
Total Expenses.	_____
NET BOOK MARGIN	_____
COST PER KWH DELIVERED (In Mills).	_____

CASH BASIS

EXPENSES	\$ _____
Total Operating Expense	\$ _____
TAXES	_____
DEBT SERVICE REQUIREMENTS	_____
REPLACEMENT RESERVES.	_____
OTHER CASH RESERVES	_____
Total Expenses.	\$ _____
NET CASH MARGIN.	\$ _____
COST PER KWH DELIVERED (In Mills)	_____

Refer to Pwr. Memo 100, Step 1

Refer to Pwr. Memo 100, Step 2

Refer to ADM-39, Sched. C, Lines 1,15 & 16

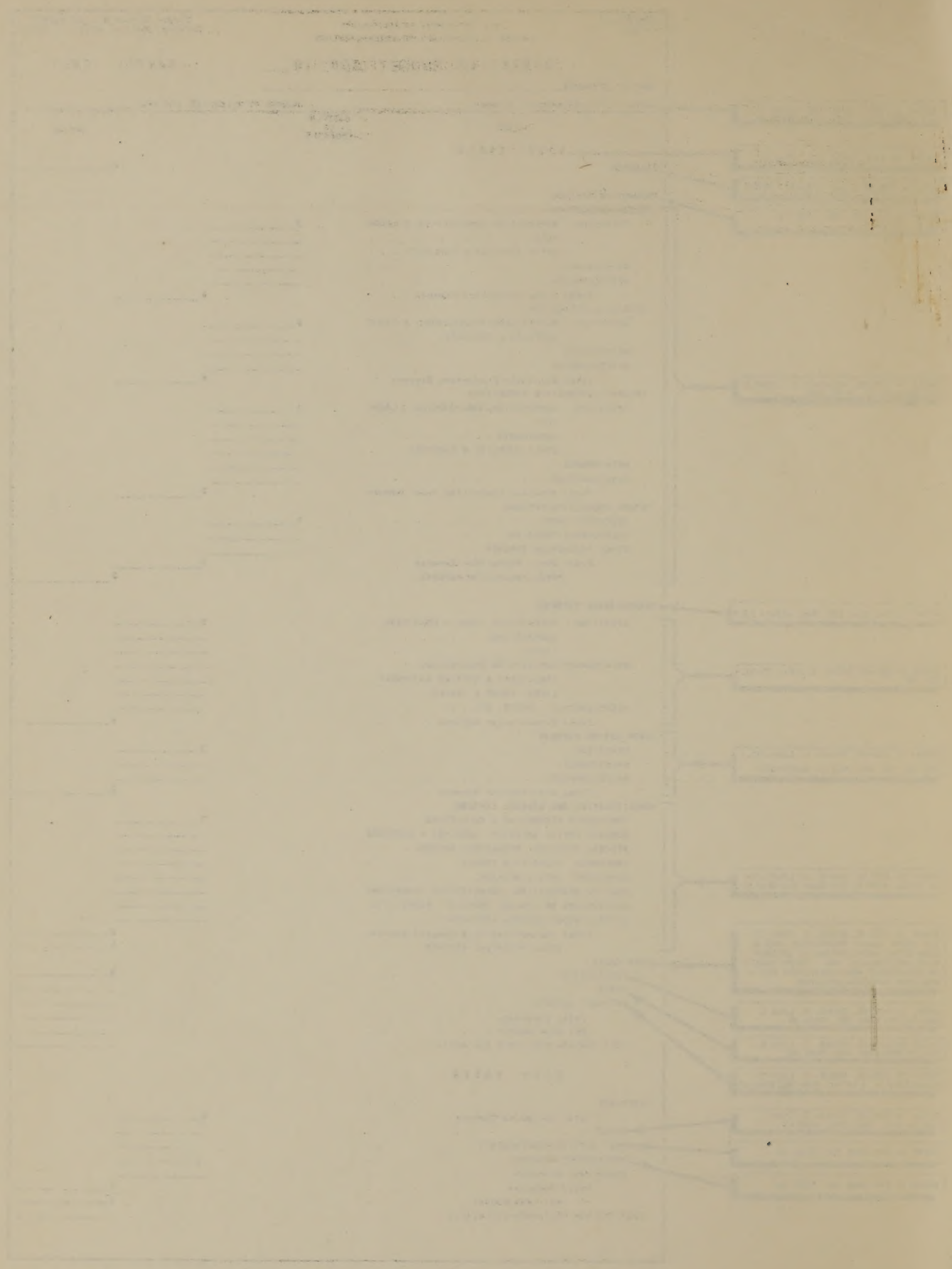
Refer to Pwr. Memo 100, Step 4A,
Para. 1-5 incl.Refer to ADM-39, Schedule D, Lines 1,
2,3,5-9, 11-17, 9-26 incl.

Refer to Pwr. Memo 100, Step 4B Para 1 & 2

Refer to ADM-39, Sched. D, Lines 27-33,
35, 36Refer to ADM-39, Sched. D, Lines 37,
38, 39, 40. Use Only If ApplicableRefer to ADM-39, Sched. D, Lines 41-
50 incl., also to Pwr. Memo 100, Step 4CRefer to ADM-39, Sched. C, Line 12
for other income deductions; and to
Line 4 for amortization of intangi-
bles adjustments, etc. These should
be considered when applicable and a
separate schedule prepared.Refer to ADM-39, Sched. C, Line 3,
and to Pwr. Memo 100, Step 4DRefer to ADM-39, Sched. C, Line 5,
and to Pwr. Memo 100, Step 4ERefer to ADM-39, Sched. C, Line 10
Minus Line 11, & to Pwr. Memo 100, Step 4FRefer to ADM-39, Sched. C, Line 5,
and to Pwr. Memo 100, Step 4E

Refer to Pwr. Memo 100, Step 4G

Refer to Pwr. Memo 100, Step 4H



1:933
P872
Cap 2

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION
WASHINGTON 25, D. C.

FWR 101
MGT 3

May 22, 1952

POWER MEMORANDUM 101

MANAGEMENT MEMORANDUM 3

SUBJECT: Payment of Prevailing Wage by REA Borrowers

It is the policy of REA, as stated in Administrative Bulletin No. 120-R1, to urge that borrowers, in connection with the construction of electric facilities financed with REA loan funds, insert provisions in contracts between borrowers and contractors to assure the payment of wages which are not less than those being paid currently for like construction in the particular area in which the work is to be performed.

During the early part of 1951, twenty-three states set up Prevailing Wage Committees. These committees made intensive surveys of wage schedules from the following sources:

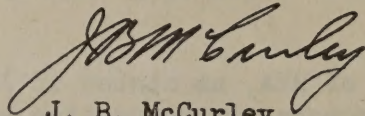
1. Contractors operating in the area who have recently completed or are now engaged in a construction project similar to that contemplated by the borrower.
2. Contractors' Associations operating in the area.
3. Wage scales arrived at by collective bargaining.
4. Wage scales of state, county, and municipal agencies.

As a result of the surveys, they established a recommended schedule in their respective states which could be applied on a statewide basis to any REA contract construction within the state.

It is recommended that statewide associations reactivate wage committees or appoint new committees for the purpose of gathering data and making determinations of wage rates for the respective jobs involved in distribution, transmission, and generation construction on a contract basis financed with REA funds. These determinations will then be available to the individual borrowers. In those states where state association committees are not available, the individual borrower should use the same sources of information in preparation of wage data.

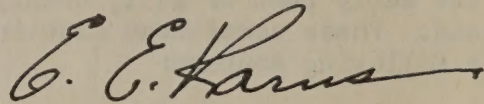
The Management and Power Divisions, through their respective Management Sections, shall assist and advise borrowers in establishing prevailing wage committees in the various states or in collecting data on an individual basis and shall upon request furnish advice and assistance with respect to procedure and source of data.

This memorandum applies to generation, transmission, and headquarters facilities of all power-type borrowers.



J. B. McCurley
Chief, Power Division

This memorandum applies to distribution, transmission, generation, and headquarters facilities for all distribution-type borrowers.



E. E. Karns
Chief, Management Division

